DOCUMENT RESUME

ED 459 296 UD 034 597

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TITLE After Welfare Reform and an Economic Boom: Why Is Child Poverty Still So Much Higher in the U.S. Than in Europe?
PUB DATE 2001-06-00
NOTE 24p.; Paper presented at the Annual Meeting of the Foundation for International Studies on Social Security (8th, Sigtuna, Sweden, June 16-19,2001).
PUB TYPE Opinion Papers (120) -- Speeches/Meeting Papers (150)
EDRS PRICE MF01/PC01 Plus Postage.
DESCRIPTORS *Child Welfare; *Children; Family Income; Foreign Countries; *Poverty; *Public Policy; *Welfare Services
IDENTIFIERS Europe; Personal Responsibility and Work Opp Recon Act; Welfare Reform

ABSTRACT

This paper argues that the U.S.'s experience during the economic boom of the 1990s, together with its choices concerning social welfare policies, imply that child poverty in the United States will be much higher than that in most European countries. It hypothesizes that Americans reveal their preferences about the extent of poverty they are willing to tolerate through their public policy choices. Poverty is not very high on their agenda, and they are content to live in a society that has more economic hardship than most Europeans would tolerate. Poverty is high in the United States because Americans want to increase work among the poor and give themselves tax cuts more than they want to reduce poverty. The paper reviews the major welfare reform proposals put forward after the 1960s, emphasizing the rise and fall of poverty reduction as a social policy and the emergence of personal responsibility as the replacement goal. It suggests that if poverty is to be significantly reduced in the near term, people must demonstrate a greater willingness to spend public funds to help turn a cash-based safety net into a work-oriented safety net. (Contains 30 references.) (SM)

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ED 459 296

After welfare reform and an economic boom: why is child poverty still so much higher in the U.S. than in Europe?

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Paper presented at the 8th International Research Seminar of the Foundation for International Studies on Social Security, "Support for Children and their Parents," Sigtuna, Sweden, June 2001.

Economic conditions in the United States in 1999 (the latest year for which data on poverty are currently available) were excellent. Inflation and unemployment were low (2.2 percent and 4.2 percent, respectively), and the budget was in surplus (about 2 percent of GDP). In addition, by 1999, the radical welfare reform of 1996 had transformed the social safety net, requiring work as a condition of welfare receipt, even for single mothers with very young children, and limiting the number of years of eligibility for cash benefits. The favorable economic conditions led to increased employer demand for workers and welfare reform mandated increased labor supply from single mothers. As a result, the labor force participation rate of single mothers increased and the welfare caseload decreased substantially in a period of only a few years.

Wage rates, adjusted for inflation, increased as the labor market tightened, but still remained below levels achieved a quarter century earlier. For example, average hourly earnings (in 1999 constant dollars) in private industry were $13.57 in December 1999, 6.4 percent above the December 1992 level, but still 7.5 percent below the December 1973 level, $14.61. Because wage rates of the least-skilled workers and of single mothers are well-below these averages, the official child poverty rate (an absolute measure) remained high--16.9 percent in 1999. Using a relative poverty measure (40 percent of median adjusted disposable personal income),

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Smeeding, Rainwater and Burtless (2002), show that the U.S. child poverty rate in the late-1990s was about three times the average rate of 13 other countries in the Luxembourg Income Study. When they measure poverty with the U.S. poverty line and 1999 OECD purchasing power parities, the U.S. rate remains well-above those of France, Canada, Germany, Netherlands, Sweden, Finland, Norway and Luxembourg, and only below those of Australia and the United Kingdom.

The U.S. child poverty rate did fall during the economic boom of the 1990s (it was 22.7 percent in 1993). However, the 1999 rate was about the same as the 1967 rate (16.6 percent), a year also marked by an economic boom. Whereas child poverty in 1999 was about the same as in 1967, real per capita money income (before tax, but after cash transfers) was about twice as high, $21,181 vs. $11,309 (in 1999 dollars). This doubling in the economic status of the average American did not "trickle down" to the poor, as earnings and family income inequality increased dramatically over this period (Danziger and Gottschalk 1995).

1. How much do Americans care about poverty?

How should one interpret these trends? In this paper, I argue that the U.S. experience during the economic boom of the 1990s, together with American choices concerning social welfare policies, implies that child poverty in the U.S., in the foreseeable future, will be much higher than that in most European countries. My hypothesis is that Americans have revealed their preferences about the extent of poverty they are willing to tolerate through their choices of public policies--poverty is not very high on their agenda and they are content to live in a society that has more economic hardship than most Europeans would tolerate. For example, a recent survey (Henry J. Kaiser Family Foundation 2001) found that only about 10 percent of the population considered poverty, welfare or something similar as one of the top two issues government should address, whereas about 20 percent mentioned healthcare, 28 percent mentioned education, and 20 percent mentioned tax reform.

There are several reasons why Americans "prefer" a high level of poverty. First, they have revealed a preference for a flexible, market economy with relatively little government intervention. In the economic arena, policy-makers in the 1990s have been very successful in producing what the public wants--i.e, they have managed monetary and fiscal and regulatory policies and contributed to macro-economic performance that has surpassed expectations. There is little public demand for higher

minimum wages, increased health and safety regulations, employer mandates to provide health benefits or sick leave or other labor market interventions that would reduce the much-admired labor market flexibility. European countries tend to have sacrificed some labor market flexibility with policies that raise wages and benefits for their least-skilled workers much closer to those of the median worker than is the case in the U.S..

Second, Americans have revealed a preference for achieving the very best outcomes in a number of socio-economic domains. However, they are content to have those outcomes available only to a large proportion of the population. They are willing to leave the poorest citizens with little access to even minimal levels in these same domains. For example, Americans spend a large share of their own income and significant public funds to utilize frontier medical technologies and treatments. The government funds extensive medical research and uses tax policy to subsidize the purchase of private health insurance and the development of new drugs and treatments, all of which contribute to the widespread availability of many new technologies and treatments that are less available in other advanced economies. For citizens with sufficient resources, America offers the very best health care in the world.

On the other hand, about 14 percent of children in the late-1990s had no public or private health insurance, and infant mortality rate and deaths from childhood injury are very high relative to those in most developed countries (just as our child poverty rates are high). For example, between 1991 and 1995, there were 14.1 deaths per 100,000 children ages 1-14 in the U.S. The U.S. ranked 23 out of 26 industrialized nations, just below the Czech Republic (12.0), Poland (13.4) and New Zealand (13.7), but well below Sweden, the United Kingdom, Italy, the Netherlands, Norway and Greece, all of which had a rate less than half that of the U.S. (ranging from 5.2 to 7.6 deaths per 100,000). Child deaths by injury fell substantially in all of these countries between 1971-75 and 1991-95. However, the rate of decline was higher in many other countries. For example, the U.S. rate fell by 43 percent from 24.8 to 14.1 per 100,000, whereas the rate in Canada fell by 65 percent from 27.8 to 9.7 percent. As a result, Canada rose in the rankings from 22 to 18, whereas the U.S. fell from 21 to 23 (UNICEF 2001). Interestingly, Canadian anti-poverty policy became more aggressive over these decades, and the Canadian poverty rate declined from a rate that was higher than that of the U.S. in the early 1970s to a rate that was lower by the 1990s.

I am suggesting that Americans are getting what they want--having the very best technologies available to most citizens. The benefit from this achievement dominates any social costs they may experience from living in

a society where a substantial fraction of the population has limited or no access to health care. In other words, the American objective seems to be to maximize opportunities at the top of the distribution, even if that means having significant gaps between the top and the bottom of the distribution. This may help explain the fact that national health insurance has been proposed and abandoned many times over the past 60 years, most recently during the mid-1990s. If Americans cared more about the consumption of those at the bottom of the distribution, they would surely have found a way to protect the uninsured a long time ago, as most European countries did in the aftermath of World War II.

A similar concern for maximizing the output available to most citizens, even if it means providing much less for those at the bottom of the distribution, prevails in spending on education. This is another domain in which Americans spend lavishly from their family incomes and public funds to have the world's best universities with distinguished faculties that include many Nobel prize winners and leading scholars and that generate new technologies, employment opportunities and enterprises.

At the same time, unique among industrialized countries, funding for universal public education at the elementary and secondary levels is based primarily on local property taxes, rather than on a uniform national level of spending per pupil as is the case in most European countries. This funding mechanism disadvantages the children of the poor, especially those who live in the largest inner cities. They live in districts whose property values per capita are lower than those living in the higher-income suburbs. As a result, they attend schools that have less instructional funds per pupil than do the children of the nonpoor, that have inferior facilities and the least-experienced or least-qualified teachers. In part because of these resource differences, the children of the poor tend to score lower on standardized tests, are less likely to graduate from high school, and less likely to go on to college.

But even if low-income children score highly on academic tests, they are less likely to attend a four-year college or university than are high-income students. According to Ellwood and Kane (2000), 84 percent of the children from the top family income quintile who score in the top third of a math test go on to a four-year college, compared to 68 and 69 percent of the children in the lowest and second family income quintile. If Americans cared more about the educational opportunities of those at the bottom of the economic ladder, they would long ago have found a way to reduce funding disparities between poor and nonpoor children and to have improved the educational prospects of disadvantaged students.

Certainly, Americans have the resources to purchase the public goods that they value. Many new sports stadiums have been built with public funds in the same cities where taxpayers have been unwilling to increase public funding for children who are poor, without health insurance, and/or attend inferior schools. Given that America is a rich country, that the long economic boom of the 1990s produced a large government budget surplus, and that Americans have achieved so many of their preferences with regards to many socio-economic domains, it must be the case that Americans care less than do Europeans about the living standards of the poor.

Another example of the lack of desire to help the poor can be found in the current public policy debate over what to do about the federal budget surplus. In May 2001, Congress debated how to distribute a very large tax cut across the population. First, that the tax cut is the new Administration's top priority reveals a preference for dealing with the private consumption of taxpayers rather than with other public spending priorities, much less cash assistance for the poor or health care for the uninsured or reducing funding disparities in public schools. Second, even the "liberal" side of the debate was quite conservative by European standards. The Bush Administration proposed to expand a "per child tax credit" that is non-refundable; hence 26 million children in low- and moderate income families would not benefit. The response of the opposition party Democrats was to promote a compromise in which the credit would be made available to children in some low-income families so that **only** 10.6 million children would receive nothing. In other words, there was no significant support in Congress for making the child care tax credit fully-refundable. This suggest that the primary policy goal is to reduce income taxes for all income taxpayers and not to reduce child poverty or even to reduce payroll taxes or expand tax relief for the working poor.

In contrast, the Blair government in the UK has made reducing child poverty a top priority and has made a number of changes in the income tax that have greatly increased the incomes of poor families. According to Piachaud and Sutherland (2000), the Blair government's tax and benefit changes and introduction of the minimum wage "increased the incomes of the poorest more than those of the better-off and of households with children more than others (p.16)." According to the Center on Budget and Policy Priorities (2001), the proposed US tax cut, when fully-phased in, would raise after tax income of the top 1 percent of the population by 5 percent, that of the middle quintile by 2.2 percent and that of the lowest quintile by 0.8 percent. In other words, the Blair tax plan reduces income

inequality and poverty, whereas the Bush tax plan increases inequality and does nothing for the poor.

In the remainder of this paper, I review the history of welfare policies from the late-1960s to the present and document how American policy moved away from a focus on reducing poverty to a focus on reducing welfare dependency and increasing work. The popularity of the 1996 welfare reform is consistent with my hypothesis that Americans care relatively little that our poverty rate is so much higher than those in Europe. According to the winter 2001 poll results cited earlier, (Henry J. Kaiser Family Foundation 2001),

> Americans who know about the new welfare law like the way it is working....And the most important reason they give for why it is working well is that it requires people to go to work. Americans appear to value work so strongly that they support welfare reform even if it leads to jobs that keep people in poverty. The vast majority of those who know there has been a major change in the welfare laws (73 %) **believes that people who have left the welfare rolls are still poor, despite having found jobs** (emphasis added).

Poverty is still higher in America than in Europe because Americans want to increase work among the poor and give themselves tax cuts more than they want to reduce poverty.

2. Four decades of welfare reform policy[2]

Welfare reform proposals in the late 1960s grew out of War on Poverty initiatives and sought to extend welfare eligibility and raise benefit levels so as to reduce poverty. The brief period from the mid 1960s to the mid 1970s was one during which social policy discussion in America took on a European tone. Consider this quotation from President Johnson's Commission on Income Maintenance (1969):

> We have concluded that more often than not the reason for poverty is not some personal failing, but the accident of being born to the wrong parents, or the lack of opportunity to become nonpoor, or some other circumstance over which individuals have no control....Our main recommendation is for the creation of a universal income supplement program financed and administered by the Federal government, making cash payments to all members of the population with income needs.

This commission's willingness to extend cash assistance and its "structural" views about the causes of poverty are quite consistent with the current social policies of most European countries, but have never been widely endorsed in America.

Between the mid 1970s and mid 1980s, public dissatisfaction with rising welfare rolls and spending increased, and greater attention was paid to constraining budgetary costs and to promoting work. In 1987, the American Enterprise Institute released an influential report (Novak et al. 1987) which articulated this view:

> Money alone will not cure poverty; internalized values are also needed...(T)he most disturbing element among a fraction of the contemporary poor is an inability to seize opportunity even when it is available and while others around them are seizing it....Their need is less for job training than for meaning and order in their lives...An indispensable resource in the war against poverty is a sense of personal responsibility.

This represents a distinctly-American view about poverty, that I suspect most Europeans would not endorse. The emphasis on the personal responsibility of the poor, rather than any public responsibility for providing the poor with resources, dominated policy debates for the next decade and culminated in passage of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA).

The 1996 Act ended the entitlement to cash assistance, mandated work and contributed to a decline in the welfare rolls that was more dramatic than most analysts expected. In part, caseload decline was so rapid because the economic recovery lasted so long, and in part, because states aggressively pursued caseload-reduction strategies (Danziger, ed. 1999). However, an effective work-based safety net was not put in place—there is no guarantee that a welfare recipient or former recipient who seeks work, but cannot find a job, will receive any cash assistance or any opportunity to work in return for assistance after she reaches her time limit. Thus, in contrast to the safety net in most European countries, many of the nonelderly, nondisabled poor do not receive unemployment insurance or cash public assistance or child care allowances.

I now briefly review the major welfare reform proposals put forward after the 1960s. I emphasize the rise and fall of poverty reduction as a social policy goal and the emergence of personal responsibility as the replacement goal.

The war on poverty

When War on Poverty was declared by President Johnson in 1964, his economic advisors thought that if stable economic growth could be maintained, as it had been since the end of World War II, government programs and policies could eliminate income poverty if sufficient resources were devoted to the task. As a result, the Administration's proposals emphasized labor supply policies to raise the labor market productivity of the poor (Lampman 1959; U.S. Council of Economic Advisers 1964). Poverty was thought to be high, because the poor did not work enough or because their skills were insufficient even if they worked hard. Employment and training programs were established or expanded to enhance individual skills, especially for young people, through classroom education and on-the-job training.

Little attention was focused on welfare dependency because the total caseload was quite small. However, in the aftermath of program liberalizations fostered by the War on Poverty, caseloads increased from about 4 million recipients in the mid 1960s to about 6 million by 1969, leading to proposals for welfare reform.

The family assistance plan

In 1969, President Nixon proposed the Family Assistance Plan (FAP) as a replacement for the Aid to Families with Dependent Children Program (AFDC). FAP included a national minimum welfare benefit coupled with a work requirement. However, the president stated ". . . a welfare mother with pre-school children should not face benefit reductions if she decides to stay home. It is not our intent that mothers of pre-school children must accept work" (Nixon 1969). The president's view was consistent with both the original goal of AFDC and the conventional wisdom of the 1960s that mothers of young children should stay home and care for them.

FAP and similar negative income tax (NIT) plans (Lampman 1965; Tobin 1966) emphasized the extension of welfare to two-parent families, the establishment of a national minimum welfare benefit, the reduction of work disincentives arising from AFDC's high marginal tax rate on earnings, and the de-coupling of cash assistance and social services. The view that welfare recipients needed assistance from social workers was replaced by the view that their primary needs were economic and that the increased welfare benefits would reduce the extent of poverty.

After the legislative defeat of FAP, even though a cash NIT for all poor persons never passed, the Food Stamp program evolved into one. By

the mid-1970s, it provided a national benefit in food coupons that varied by family size, regardless of state of residence or living arrangements or marital status.

The program for better jobs and income

In 1977, President Carter proposed the Program for Better Jobs and Income (PBJI), a universal NIT with one income guarantee for those not expected to work and a lower guarantee for those expected to work. Those expected to work would also have been eligible for a public service job (PSE) job of last resort.

Whereas the welfare reform debates of the 1990s emphasized time-limiting welfare benefits and enforcing work requirements, PBJI would have both expanded the welfare rolls and provided up to 1.4 million minimum-wage PSE jobs for recipients who could not find any other work. As was the case with Nixon's FAP, a single mother with a child of age six or younger would have been exempted from work. Those whose youngest child was between the ages of seven and fourteen would have been expected to work part-time; those whose youngest child was over age fourteen would have been expected to work full-time.

By providing jobs of last resort and supplementing low earnings, PBJI would have raised the family income of welfare recipients working at low wages, and, in many cases, would have taken them out of poverty. PBJI was thus a precursor of proposals articulated in the US in the late 1980s, and by the Blair government in the UK in the 1990s "to make work pay." Of course, the plan would have increased total federal welfare spending substantially, which was a key reason for its failure to become law.

PBJI also provides a benchmark against which subsequent welfare reform developments can be evaluated because it called attention to insufficient employer demand for less-skilled workers. It recognized that some welfare recipients would want to work but would not be able to find a regular job in the private or public sectors, and that a minimum wage job of last resort would be needed to address their involuntary unemployment and provide an alternative to welfare receipt. The 1996 Act neglected the demand side of the labor market when it ended the entitlement to cash assistance without implementing any entitlement to work in exchange for welfare benefits. Second, PBJI would have supplemented wages for families with low earnings, addressing the issue of falling real wages for the less-skilled, a trend which was just then emerging.[3]

Congress and the public, however, never shared economists' enthusiasm for a guaranteed income, not even when PBJI linked the income guarantee to an expectation of work. Nonetheless, even without these welfare reforms, the income maintenance system expanded substantially between the late 1960s and the late1970s, as new programs were introduced, benefit levels were increased, and eligibility requirements were liberalized. The number of AFDC recipients increased from about 6 to 11 million and the number of Food Stamp recipients, from about 1 to 19 million over this period. As higher cash and in-kind benefits became available to a larger percentage of poor people, the work disincentives and high budgetary costs of welfare programs were increasingly challenged. The public and policy makers came to view increased welfare recipiency as evidence that the programs were subsidizing dependency and encouraging idleness (Anderson 1978; Murray 1984).

The failure of PBJI marked the end of the era of expansive welfare reform proposals that made reducing poverty a high priority. What followed was an era of welfare retrenchment that made caseload reduction and increased work among single mothers its primary goals.

The Reagan years

The Reagan Administration opposed what had been a key goal of both FAP and PBJI—simultaneous receipt of wages and welfare benefits. It proposed that welfare become a safety net, providing cash assistance only for those unable to secure jobs. Public employment was considered an unnecessary intrusion into the labor market, and the PSE program of the 1970s, the Comprehensive Employment and Training Act, was abolished. The Omnibus Budget Reconciliation Act of 1981 fostered these goals through several changes in benefit calculations and eligibility criteria. Once a recipient had received welfare for four months, benefits were reduced by one dollar for every dollar earned. As a result, by early 1983 welfare caseloads declined by nearly 14 percent. This reform actually contributed to increased public dissatisfaction with welfare because it removed most working recipients from the caseload. As a result, the percentage of welfare recipients who did not work increased, and nonwork became the key focus of welfare reform in the ensuing decade (Mead 1992).

Although real spending on and eligibility for cash welfare were cut back in the 1980s, spending on the working poor increased. Given the importance placed on work, Congress and the public found no contradiction in reducing assistance for the nonworking poor, while increasing it for the working poor. The Earned Income Tax Credit (EITC), enacted in 1975,

provides families of the working poor with a refundable income tax credit, thereby raising the effective wage of low-income families. The maximum EITC for a poor family was $400 in 1975, $550 by 1986, and $953 by 1990. The number of families receiving credits increased from between 5 and 7.5 million families a year between 1975 and 1986 to more than 11 million by 1988.[4]

Because the EITC supplements low earnings, it became easier for policy makers to emphasize welfare reform policies that could place recipients into any job, rather than training them for "good jobs." If a nonworking recipient took a low-wage job, a substantial EITC could make work pay as much as a higher-wage job would have paid in the absence of an EITC. For example, by the mid 1990s, the income of a single mother with two children working half-time at the minimum wage plus her EITC exceeded welfare benefit levels in most states and the maximum EITC, about $3500, raised the after-tax income of a minimum wage worker who worked full-time, full-year to about the poverty line. (Ellwood 2000).

The family support act

The Family Support Act (FSA) of 1988 reflected a bipartisan consensus in which liberals achieved a broader safety net and conservatives achieved stronger work requirements (Baum 1991; Haskins 1991; Mead 1992). State governments were required to provide additional training and support services through a new training and education program – the Job Opportunities and Basic Skills Training Program (JOBS). This program was based on welfare-to-work demonstration programs that were undertaken in response to the Community Work Experience Program that was enacted in 1981. The Manpower Demonstration Research Corporation (MDRC) evaluated many of these programs and found them modestly successful in reducing dependence on welfare and increasing earnings (Gueron 2001; Friedlander and Burtless 1995). The evaluations were promising enough that, by the late 1980s, support for moving welfare recipients into employment had become widespread (Novak et al. 1987; Ellwood 1988).

The Family Support Act incorporated many lessons from these demonstrations and sought to improve on them. States were required to implement welfare-to-work programs, extend them to a greater proportion of the caseload and offer a range of education, skills training, job placement, and support services for such items as child care and transportation. By the time of the 1996 welfare debate, however, support for state requirements to provide many services had diminished, due, in

part, to the fact that one of the most successful JOBS programs, in terms of getting recipients into employment (Riverside, California), implemented a "work first" program. Work First programs adopt the philosophy "that any job is a good job and that the best way to succeed in the labor market is to join it, developing work habits and skills on the job rather than in a classroom (Brown 1997, p.2)." This reduces the need for states to provide funds for education, training or expanded support services, and allows them to serve a greater percentage of recipients with a fixed budget.

The FSA took effect just as the economic expansion of the 1980s ended. When the welfare rolls jumped in the late-1980s and early-1990s, from about 11 to about 14 million recipients, dissatisfaction with welfare again increased. Even though JOBS had not yet been fully implemented, it had come under enough criticism that Candidate Clinton saw political gain in placing welfare reform at the top of his policy agenda.

JOBS also raised work expectations and provided sanctions for recipients who did not co-operate with the welfare agencies. It lowered the age of the child at which a welfare recipient was expected to participate. Once her youngest child reached age three, she was required to participate for up to 20 hours per week; once that child reached age six, she could be required to participate for up to 40 hours per week. Any recipient who complied with JOBS requirements continued to receive welfare; any failing to comply without good cause could reduce the recipient's monthly grant to reflect a family with one fewer person.

Time limits, which came to dominate the welfare reform debates of the 1990s, were not part of the Family Support Act. JOBS reflected a commitment to mutual responsibility: recipients were required to exercise personal responsibility and take advantage of education, training, and work opportunities which the government had the responsibility to provide. If the state did not appropriate sufficient funds to provide a JOBS slot (and many states did not), the recipient was not sanctioned for the state's failure. Within a few years, however, personal responsibility would take center stage and such requirements on the states would be greatly reduced.

Welfare as we now know it

PRWORA replaced AFDC with Temporary Assistance for Needy Families (TANF) and ended the entitlement to cash assistance. Each state can now decide which families to assist, subject only to a requirement that they receive "fair and equitable treatment." PRWORA also reduced the total amount of spending required from the federal and state governments. The federal contribution changed from a matching grant to a block grant that is

essentially capped for each state at its fiscal year 1994 spending level. Increased welfare costs associated with population growth or economic downturns or inflation will be borne by the states or else by the poor. Moreover, states now are only required to expend 75 percent of their 1994 level of expenditures on AFDC, JOBS, child care, and Emergency Assistance.

States that have both the funds and the inclination can choose to provide an even more supportive safety net than existed before. Each state can pursue whatever kind of reform it chooses, including mutual responsibility reforms that would increase the state's commitment to help recipients find jobs. In practice, however, most states have worked harder to cut welfare caseloads than they have to provide work opportunities and services to current recipients or those who have left the rolls, including those who have been unable to find work (Pavetti 2002).

The centerpiece of the new reform is its time limit—states may not use federal block grant funds to provide more than a cumulative lifetime total of 60 months of cash assistance to any welfare recipient, no matter how willing she might be to work for her benefits, and they have the option to set shorter time limits. States can grant exceptions to the lifetime limit and continue to use federal funds for up to 20 percent of the caseload.

The extent of work expectations has also been increased. Single-parent recipients with no children under age one will be expected to work at least 30 hours per week by FY 2002 in order to maintain eligibility for cash assistance. States can require participation in work or work-related activities regardless of the age of the youngest child. Whereas President Nixon called for work exemptions for mothers of children under age six, some states now exempt a mother for only 13 weeks following childbirth.

PRWORA offers no opportunity to work in exchange for welfare benefits when a recipient reaches her lifetime limit of 60 months of federally-supported cash assistance.[5] Although there is substantial evidence that the labor market prospects for less-skilled workers have greatly eroded since early 1970s, the government is no longer responsible for providing a cash safety net. Although states can exempt up to 20 percent of the caseload from the time limit, more than this number of recipients who remain on the post-reform caseloads are likely to need extended cash assistance or a last resort work-for-welfare opportunity because their personal attributes (e.g., a high prevalence of health, mental health and skill problems) make their employment prospects even more precarious than those of the typical less-skilled worker (Danziger 2002).

Four key points describe what we have learned to date about the effects of PRWORA. First, the act "ended welfare as we knew it" more

decisively than most policy analysts expected when the legislation was signed--welfare caseloads dropped so dramatically, that by mid-2000, the number of recipients had fallen to 5.8 million, about the same number as in 1968.

Second, economic conditions, federal government policy changes, and state welfare policy changes have altered the incentives facing recipients and greatly increased the financial rewards of moving from welfare to work. The welfare trap has been sprung in many states through a combination of an expanded Earned Income Tax credit, a higher minimum wage, the implementation of the Children's Health Insurance Program (CHIP), increased funding for child care subsidies, and increased earned income disregards within welfare.

As a result, the dramatic caseload decline has not caused the surge in poverty or homelessness that many critics of the 1996 Act predicted because most former recipients are finding jobs. Even though many welfare leavers are not working full-time, full-year, and many are working at low-wage jobs, a significant number are earning at least as much as they had received in cash welfare benefits and some now have higher net income because of the income supplements mentioned above.

Third, despite the large caseload reduction, the national poverty rate has fallen rather little. Many who have left welfare for work remain poor and continue to depend on Food Stamps, Medicaid and other government assistance; some have left welfare and remain poor, but do not receive the Food Stamp or Medicaid benefits to which they remain entitled. The extent of economic hardship remains high, because, given their human capital and personal characteristics, many former, as well as current, welfare recipients have limited earnings prospects in a labor market that increasingly demands higher skills. Thus, much uncertainty exists about the long-run prospects for escaping poverty of both stayers and leavers.

Fourth, we do not yet know how welfare reform will play out during a recession or even during a period of moderate unemployment rates and slow economic growth. Indeed, because PRWORA placed a 5-year, life-time limit on the receipt of cash assistance, women still receiving welfare (stayers), who have more barriers to employment than those who have already left the roles (leavers), are at risk of "hitting their time limits" during a period of slow economic growth or recession. At present, we obviously do not know whether the possible coincidence of many recipients exhausting eligibility for cash assistance during a recession might produce the increased child poverty and extreme hardships that critics predicted the Act would cause, or whether Congress and the states might respond by expanding exemptions from or extensions to federal time limits

or by providing work-for-welfare community service employment or by creating state-funded programs for those reaching time limits.

3. What have these policies accomplished?

Table 1 presents trends over the past three decades on the work effort, welfare receipt and economic well-being of single mothers with children; Table 2, three decades of poverty rates for all children, and for subgroups classified by the marital status and race/ethnicity of their mothers. The data reinforce the view that child poverty in America, regardless of economic conditions or welfare policies, is likely to remain higher than child poverty in Europe.

Consider the top panel of Table 1. The percentage of single mothers with children under the age of 18 who worked at some point during the year was about 70 percent for most of the period from the late 1960s to the late 1980s. After the economic boom and the welfare reform of the 1990s, this employment rate increased to 85 percent. Between 1989 and 1999, the employment rate of white single mothers increased by 9 percentage points, that of black single mothers by 17 percentage points and that of Hispanic single mothers by 18 points.

These increases in employment were greatest for the race/ethnic groups which relied most on welfare. That is, over most of the period about one quarter of white single mothers, but about half of black and Hispanic single mothers received cash welfare at some time during the year. Between 1979 and 1999, there was a 27 percentage point decline in welfare receipt among black single mothers, a 31 point decline among Hispanic single mothers, and a 13 point decline among white non hispanic mothers. Most of the increased employment and reduced welfare receipt occurred after the mid 1990s and can be attributed to the economic boom, welfare reform and interactions between them.

Notice also, the erosion of the median welfare benefit over the entire period. The median annual cash benefit for all single mothers in 1999 was only about one-third of its 1969 value. As reviewed above, the large welfare caseload (the third panel in Table 1) was the focus of constant public debate from the late 1960s up to the 1996 reform. Less attention was focused on the declining real value of welfare benefits (panel 4) or the very high poverty rates of single-mother families (bottom panel).

Table 2 shows that the child poverty rate in the U.S. is similar to that in Europe for white non-hispanic children living in married-couple families, ranging from 5 to 7 percent over the 30 year period. However, the

rate for all children is substantially higher. It rose from 14 to 20 percent between 1969 and 1989, and fell only slightly to 17 percent in 1999 due to the combined effects of the economic boom and welfare reform. Poverty did fall substantially for children in single mother families between 1989 and 1999, from 53 to 44 percent. However, even if poverty for minority children and children of single mothers were to continue to decline at the rate achieved during the past decade, it would be decades before their rates reached European levels.

4. Conclusion

Any welfare system will produce errors of commission and omission. The pre-1996 welfare system was biased toward "false positives" because it provided cash assistance to some recipients who could have found jobs. Some of these "false positives" might have been unwilling to look for a job; others might have been offered jobs and turned them down because the wages were low or because they did not provide health insurance. American taxpayers increasingly came to expect that welfare recipients, regardless of the age of their children, take available jobs, regardless of how little they might pay in wages or benefits.

PRWORA has virtually eliminated "false positives" by terminating benefits for people who will not search for work or co-operate with the welfare agency. But the labor market experiences in recent years for millions of low-skilled workers who do not receive welfare and the experience of former recipients in the 5 years following welfare reform suggest that the new policy is generating many "false negatives." Many recipients who reach the time limits or who are sanctioned for not finding a job are being denied cash assistance even though they are willing to work, simply because they cannot find any employer to hire them. This labor demand problem will increase during recessions and will remain even in good economic times because employer demands for a skilled work force continue to escalate.

Because I support a work-oriented safety net, I am not suggesting America return to the welfare system that operated prior to 1996. That system did need to be reformed. But the "time limit and out" system differs markedly from a "time limit followed by a work-for-welfare opportunity of last resort" initially proposed by President Clinton's advisors, but rejected by Congress. (Danziger 2002).

Welfare recipients who have no serious impairments should have the personal responsibility to look for work, but if they diligently search for

work without finding a job, their cash assistance should not be terminated. At a minimum, they should be offered an opportunity to perform community service in return for continued cash assistance. A more costly option, but one that would have a greater antipoverty impact, would be to provide them with low-wage public service jobs of last resort. Welfare recipients who were willing to work could then combine wages with the Earned Income Tax Credit and support their families even when there was little employer demand for their skills. For recipients with extensive personal problems, there remains a need to expand social service and treatment programs to experiment with sheltered workshops and to consider increased exemptions or extensions of time limits.

If poverty is to be significantly reduced in the near term, Americans must demonstrate a greater willingness to spend public funds to complete the task of turning a cash-based safety net into a work-oriented safety net. What are the prospects for making such changes following the very popular welfare reform of 1996? Americans are very pleased with the dramatic caseload reductions and increased employment of the past 5 years that were highlighted in Table 1. Given the large tax reductions of 2001, and this satisfaction with welfare reform, I suspect that antipoverty policies are not likely to reach the top of the political agenda in the near future. Indeed, they have not been very high on the political agenda since the mid 1970s. As I stated at the outset, given the budget surplus of the late 1990s, this must mean that Americans have again revealed a willingness to tolerate a child poverty rate that is much higher than the rate in most European countries.

Table 1
Trends in Work, Welfare Receipt and Poverty, Single Mothers with Children, By Race/Ethnicity, 1969 - 1999

Year	All	White Non-Hispanic	Black Non-Hispanic	Hispanic
% Reporting Earnings during the Year				
1969	70%	72%	65%	n.a.
1972	65	75	56	43%
1979	72	80	63	52
1989	72	80	66	57
1999	85	89	83	75
Median Earnings (1999 Constant)				
1969	$14,163	$15,888	$10,731	n.a.
1972	15,735	17,621	11,997	11,857
1979	15,859	17,511	13,326	14,318
1989	16,941	18,541	16,123	13,167
1999	16,000	19,000	14,500	14,000
% Reporting Welfare Income During the Year				
1969	32%	23%	50%	n.a.
1972	41	27	60	64%
1979	34	23	49	53
1989	30	22	39	42
1999	16	10	22	22
Median Welfare Benefits (1999 constant $)				
1969	$8,716	$8,997	$8,262	n.a.
1972	8,143	7,102	8,039	$11,400
1979	6,425	6,246	5,948	7,690
1989	4,434	4,176	4,299	6,030
1999	2,834	2,712	2,184	4,289
Official Family Poverty Rate				
1969	43.9%	36.4%	59.4%	n.a.
1972	44.4	30.3	62.7	59.5
1979	40.4	28.8	55.9	59.0
1989	44.4	33.7	55.1	62.0
1999	37.4	27.7	48.5	47.3

Note: Single mothers include women between the ages of 18 and 54 who are never married, divorced, separated or widowed and reside with at least one child under the age of 18. Each family is counted once; data are weighted.
n.a.: The Census Bureau did not make detailed data on Hispanics available until 1972.
Source: Computations by author from March Current Population Survey Computer Tapes.

Table 2

Trends in Child Poverty Rate by Race/Ethnicity and Mothers' Marital Status, 1969 – 1999

Year	All	White-Non-Hispanic	Black Non-Hispanic	Hispanic
A. All Children				
1969	14	10	40	n.a.
1972	15	8	43	29
1979	16	10	40	29
1989	20	11	44	35
1999	17	9	34	30
B. Children Living With Single Mothers				
1969	55	44	70	n.a.
1972	54	36	71	64
1979	49	34	65	63
1989	53	39	64	68
1999	44	32	55	55
C. Children Living With Married Mothers				
1969	9	7	27	n.a.
1972	9	5	24	23
1979	9	6	18	20
1989	10	7	19	25
1999	9	5	12	23

Note: Children under 18 years of age living in a family where the head is over 18 and is in the civilian population. Married mothers have spouse present or absent; single mothers are never married, separated, divorced or widowed. Each child is counted once; data are weighted.

n.a: The Census Bureau did not make detailed data on Hispanics available until 1972.

Source: Computations by author from March Current Population Survey Computer Tapes.

Endnotes

[1] This research was supported in part by a grant from the Ford Foundation. Kristine Witkowski provided research assistance; Barbara Ramsey, clerical assistance, Kristine Siefert, comments on a previous draft.

[2] This section draws heavily from Danziger (2001).

[3] The earned income tax credit, enacted in 1975, now serves this earnings-supplementation function.

[4] The EITC was substantially expanded again in 1990 and 1993. By 1997, total spending on the EITC, about $27 billion, exceeded federal cash welfare payments, about $17 billion. The number of families benefitting from the EITC increased to more than 18 million in the late 1990s (U.S. House of Representatives 1998). The EITC served as a model for the Blair government's working families tax credit.

[5] Seven states set lifetime time limits for adults (or the entire family) of less than 60 months, ranging from 21 months to 48 months. However, another 12 states have time limit policies in which adults or the family are ineligible for assistance for a period of time after receiving benefits for a certain number of months (e.g., the family may receive benefits for up to 24 months but then may not receive additional assistance until 36 months have passed). (State Policy Documentation Project, 2002).

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